COMMERCIAL SURFACE

REQUEST FOR AUTHORISATION OF VARIATION TO A TRANSACTION

SUBJECT	New Routemaster – Additional 200 vehicles	**Date** 17/12/2015
Originating Department: London Bus Services Limited		

Supplier Name:	Wrightbus Limited
Original Transaction Value:	£223,761,794 (8 pre-production buses and 592 production vehicles from original contract and subsequent variation)
Original Approval given by:	TfL Board
Value of this Variation	**£69,900,000**
New Proposed Total Value	£293,661,794

1 Summary

This paper seeks the approval of a variation to supply an additional 200 New Routemaster (NRM) buses.

2 Background

2.1 Wrightbus Limited (Wrightbus) was awarded a contract on 23 December 2009 to supply up to 1,000 vehicles (including initial prototypes), following a competitive process.

2.2 Following the introduction of eight trial NRMs into service in 2012, in September 2012 TfL agreed to increase the total purchase to 600 NRMs, with the final bus due to be delivered by March 2016.

2.3 The purchase of an additional 200 NRM buses for delivery into passenger service by the end of April 2016 was approved by the TfL Board on 5 November 2014. The paper presented to the Board is attached as Appendix 1.

2.4 A non-binding Memorandum of Understanding (MOU) setting out the key points of the agreement to supply the buses was signed with Wrightbus in October 2014 and is attached as Appendix 2.

2.5 The proposed variation reflects the terms of the MOU and subsequent discussions in relation to termination rights and security for advance payments, the key elements of which are outlined below.

3 Proposed Variation

3.1 This variation implements the decision of the TfL Board to procure an additional 200 NRM buses for passenger service by the end of April 2016, taking the NRM fleet size to 800.

3.2 The Purchase Order Quantity will be 200 vehicles subject to adjustment at LBSL's discretion within a band of 195 to 205 to

accommodate LBSL's route conversion programme, such change in Purchase Order Quantity will not give either party a right to amend the price per vehicle.

3.3 The proposed variation incorporates updates to various technical issues and improvements, and new inspection and delivery schedules including, for example, a requirement for improved in-service monitoring targets for operational fuel consumption and a defined build specification.

3.4 Model of Ownership - It has been described to the Board that the nature and circumstances of this purchase mean that a direct purchase by LBSL of these buses will offer better value for money than purchase by bus operators; nothing has changed to alter that recommendation and the contract variation is drafted on the basis that LBSL will own the vehicles and they will be leased to operators.

4 Key Details

4.1. In giving its approval, the Board delegated to the Commissioner, the Managing Director Finance, the Managing Director Surface Transport, General Counsel and the Director of LBSL (the TfL counter-party to the agreement) the authority to settle the final terms for the purchase and authorise execution of the necessary documentation. The Board specifically authorised those officers to settle the following terms:

4.2. Number of vehicles

The basic number of buses included in this variation is 200 (+ or - 5 buses) giving a total of 800 NRMs; the right included in the original contract for LBSL to terminate at any point is suspended for the duration of this order although the number of vehicles ordered can be adjusted on 9 months' notice and payment of certain costs Wrightbus have incurred and which cannot be avoided.

4.3. Timing of Orders

The contract variation contains the manufacturer's revised production programme and, while regard must be had to it, the primary driver in settling the time for delivery will be based on the timetable for route conversion which will be for LBSL to advise.

4.4. Price

A reduction of £5000 for each additional bus has been agreed between LBSL and Wrightbus as stated in the MOU, the new cost for each bus is a fixed price of £349,500 equating to a saving of £1m. Actual payments under the proposed variation are:

4.4.1. LBSL shall make an advance payment of £17,475,000 to Wrightbus against which Wrightbus will receive an advance payment bond from Lloyds Bank plc. That sum will be used to reduce the ex-works payment for the final 100 Production

Vehicles to be supplied under the 2012 order for 600 vehicles and the 200 additional buses to be supplied under this variation.

4.4.2. LBSL will pay £221,350 for each bus at the point at which such bus has been produced, successfully inspected and is fully ready for delivery. The number of buses will be consolidated into a monthly report by LBSL and sent to Wrights. At this point the advanced payment bond will reduce by £58,250 per bus (being 1/300th of the advance payment).

4.4.3. Similarly, to reflect the advance payment, the ex-works payment for the last 100 buses from the 2012 order is reduced by £58,250.

4.4.4. A final payment of £69,900 will be made for each Vehicle upon delivery, having met the Production tests and having been issued with an unqualified Production Vehicle Inspection Report.

4.4.5. LBSL's protections in respect of the advance payment are described in section 5 below.

5 Key Contractual Changes

Key changes to the existing contract terms in the proposed contract variation for this order of 200 additional buses are as follows:

5.1. The 200 additional buses will be fitted with the latest ultra-low-emission Euro VI engine which helps TfL demonstrate its commitment to improving the environmental performance of the bus network to improve air quality in London.

5.2. A further improvement is to the rear door, with modifications to the mechanism, voice warning and markings to improve safety when the door opens inwards.

5.3. <u>Security for Advance Payment.</u>
In accordance with TfL's approach to advance payments, an advance payment bond is to be provided by Lloyds Bank plc at Wrightbus' expense. The bond is TfL's standard form and will reduce over time as described above.

5.4. <u>Termination for Convenience.</u>
As noted above, the general termination for convenience provision is suspended while this order is fulfilled. In the event that LBSL did have a need to cancel the order, any recovery against the full price of the order would have to be negotiated separately.

5.5. <u>Liquidated Damages.</u>
Liquidated damages provisions remain in the contract.

6 Impact on Funds

The budget was approved at TfL Board on 05 November 2014.
WBS code: SP.2475.001

7 Recommendation

It is recommended that the contract variation for an additional 200 NRM buses as authorised by the TfL Board, as detailed in the MOU and this document and as set out in the Contract Variation document is approved as permitted in the approvals given by the TfL Board, for execution by affixing the LBSL seal.

8 Next Steps

Following approval of the recommendation:

8.1 The Variation Agreement and restated contract document will be sealed on behalf of LBSL and Wrightbus.

8.2 Shopping carts to authorise the purchase of vehicles and advance payment will be created in SAP for approval by the Commissioner.

8.3 The project team will create the Purchase Orders which will be released by the Commercial Transactional Team.

9 Signature and Approval

Approved By (*Appropriate Delegated Officer with Financial Authority*)

Name	Signature	Date	Title
Kevin Smith			Head of Surface Commercial
Mike Weston			Director of Buses

Appendix 1 Board Paper

Board

Date: **5 November 2014**

Item XX: **New Routemasters**

This paper will be considered in public

Summary

ST-PJ366	**New Routemasters**	
	Existing Financial Authority	Existing Project Authority
Project	£219.9m	£219.9m
Operation	£4.1m	n/a
Total	£224m	

Authority Approval:

The Board is asked to approve additional Project Authority for the purchase of 200 additional New Routemaster (NRM) buses for passenger service by the end of April 2016, taking the NRM fleet size to 800. This in an increase to the current project scope and increases total Project Authority. Additional financial and procurement authority is also sought for the additional 200 NRMs and the associated iBus equipment, mid-life refurbishment costs and other related matters.

The estimated final cost figures for Financial and Project Authorities are in the paper on Part 2 of the agenda.

The Board is also asked to note the reduction in the Bus operating contract's budget for the net of ownership savings and other bus costs.

1.1. The purchase of 200 NRMs will move London a step closer to aspirations outlined in the Mayor's 2020 Vision, which looks to raise the current proposed 600 vehicles to 2,000 by the end of this decade[1]. It is closely aligned to the Mayor's Transport Strategy 2010, which seeks to improve the quality of life of all Londoners through introduction of cleaner low-carbon vehicles and the development of a unique bus for the capital. The NRMs will improve the journey experience of passengers, enhance air quality, reduce vehicle noise and cut emissions with associated health benefits.

1.2. A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information

[1] Page 17 of the Mayor's 2020 Vision

relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

1.3. At its meeting on 14 October 2014, the Finance and Policy Committee noted the proposals in this paper and endorsed the recommendations to the Board.

Recommendations

1.4. The Board in agreeing the paper and the supplementary information on Part 2 of the agenda is asked to:

a. approve Project Authority for the purchase of 200 additional New Routemasters from Wrightbus at the figure set out in the paper on Part 2 of the agenda; and

b. approve Financial and Procurement Authorities for the additional 200 New Routemasters and the associated iBus equipment, mid-life refurbishment costs and other related matters, at the figure set out in the paper on Part 2 of the agenda.

c. **delegate to the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) authority to:**

i. **settle the timing of any orders for new buses and the number of buses per order; and**

ii. **finalise the terms on which the matters described in paragraph 2.1 (b) above are to be supplied;**

d. authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate) any documentation to be entered into in connection with the completion and implementation of the orders for buses made pursuant to the approval given in paragraph 2.1(b) above (the Orders) and any of the matters referred to in them (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, variations, letters or other documents); and

e. **authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Orders and the matters referred to in them.**

1.5. The following Officers and Subsidiaries shall have delegated authority:

(a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Surface Transport, General Counsel; and

(b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.

Background

1.6. Wrightbus Limited (Wrightbus) was awarded a contract to supply up to 1,000 vehicles (including initial prototypes) on 23 December 2009, following a competitive process.

1.7. Following the introduction of eight trial NRMs into service in 2012, in September 2012 TfL agreed to purchase 600 NRMs, with the final bus due to be delivered by March 2016.

1.8. NRMs are becoming a globally recognisable replacement for their iconic predecessor and have been used to promote UK technology, manufacturing and design excellence abroad.

1.9. NRMs are popular with passengers, outperforming conventional designs in areas including comfort, vibration, smoothness of ride and engine noise. 35 per cent of passengers interviewed strongly liked the overall design and environment of the NRM compared to 11 per cent for a conventional bus.[2]

1.10. 86 per cent of passengers interviewed agreed the NRM is accessible and convenient and 71 per cent recognised the NRM uses green technology and that it is a new London icon.[3]

1.11. The 200 additional buses will be fitted with the latest ultra-low-emission Euro VI engine and help TfL demonstrate its commitment to improving the environmental performance of the bus network to improve air quality in London. This will also help the UK government demonstrate one of a new raft of air-pollution mitigations that are being put in place to reduce excessive levels of oxides of nitrogen beyond that envisaged in the European Union air quality directive.

1.12. TfL is currently assessing the air cooling systems on double deck buses in the fleet with the aim of improving comfort, particularly in response to especially high temperatures experienced in summer 2014. Current options under consideration include better insulation around areas such as the engine compartment, improved ventilation and remote monitoring of saloon temperatures. More powerful air conditioning systems are not advocated as these would prevent the bus fleet achieving Mayoral air quality goals, including reducing nitrogen oxides by 20 per cent compared to 2012 levels by the end of 2015.

1.13. The only other significant change to date on the production vehicles is an alteration to the rear door, with modifications to the mechanism, voice warning and markings to improve safety when the door opens inwards.

1.14. NRMs with Euro V compliant engines are more fuel efficient and produce significantly lower levels of nitrogen oxide (NOx) and particulate matter (PM10) compared to other Euro V hybrid buses. On average, the NRMs introduced to date have improved fuel efficiency by almost 50 per cent compared to the diesel vehicles they have replaced. However given the advancement of Euro VI emission standards, which have ultra-low PM and NOx emissions across all vehicle types (80 per cent and 95 per cent reduction respectively), the PM and

[2] Face to face interviews with 221 customers on the NRM and 529 on conventional double-deck buses on route 38, conducted between 11 – 24 June 2012

[3] Survey of 291 adults who used route 24 at least twice a week, conducted between 25 July – 5 August 2013

NOx benefits of NRM at Euro VI are marginal compared to standard Euro VI hybrids.

Proposal

Preferred Option

1.15. Wrightbus has confirmed that it has the capacity to deliver the 200 additional NRMs by April 2016 provided that an order is placed by December 2014.
1.16. TfL's contract with Wrightbus has an obligation giving them exclusive production rights over the first 1,000 vehicles.
1.17. The NRM is a unique bus designed and intended to be used in London for its full economic life. Therefore under any third party ownership and funding model they would be required to be recorded as a finance lease in TfL's accounts, affecting TfL's ability to invest in other projects. The most cost effective approach is for TfL to purchase and retain ownership of the buses directly, taking advantage of its preferential cost of capital. This treatment of assets does not apply to conventional buses, as they can be acquired from a number of different suppliers and can be deployed anywhere in an operator's national fleet after use in London. The uniqueness of NRM will also disfavour the financial deal that operating companies can obtain with the leasing companies.
1.18. Therefore, the recommended option (as with the 600 NRMs for which approval was given in 2012) is for TfL to purchase the buses directly and to supply them to the bus operating companies at a notional rate, rather than for the current model of the bus companies having beneficial ownership of the vehicles. The leases enable TfL to move the NRMs between operators during their life as route contracts change and include clauses to ensure the buses are maintained to the required standard for them to be moved between operators without issue, and to maintain the value of TfL's investment.
1.19. The standard model, whereby the operators or lease companies finance and take the ownership risks of the vehicles, is still considered the best model for the majority of the bus fleet, as they are better placed to manage the full economic life of the more generic vehicles during and after their time in London.

Benefits (and Value)

1.20. While no final decision has yet been taken on which additional routes will be converted to NRM, potential routes have been identified. Where possible (and as with the 600 NRMs for which approval was given in 2012) the vehicles will be introduced through tendering at the point of contract renewal. However, where routes are not at a contract renewal point during the production period, introduction will be through negotiation with the current operator.
1.21. The routes will run entirely as One Person Operated (OPO). As a result there would be no additional safety and security benefits or disbenefits compared to a standard double deck bus.
1.22. A review of the business case of the original project produced a benefit cost ration (BCR) of 15:1 for NRMs compared to hybrids, with one person operation and based on Euro V emissions differences. The emissions benefits for Euro VI NRM buses over Euro VI hybrids are expected to be marginal (as detailed in

paragraph 3.9), which would reduce the BCR to ar
the popularity of NRMs with passengers (as noted
and their impact in driving up overall customer sati
momentum for buses, it is considered that this is a worthwhile investment.

1.23. The reduction in the Bus operating contract's budget for the net of ownership savings and other bus costs is included in the supplementary information on Part 2 of the agenda.

Assurance

1.24. The TfL Programme Management Office (PMO) undertook an Assurance Review and the recommendations have been accepted.

Views of the Finance and Policy Committee

1.25. At its meeting on 14 October 2014, the Finance and Policy Committee noted the proposals in this paper and endorsed the recommendations to the Board. Members were advised that the TfL remained on target to achieve the Mayors 2020 vision of 2,000 vehicles. TfL was able to purchase up to 1,000 buses from Wrightbus under the current contract. No decision was proposed on the order of the next 1,000 vehicles as other bus manufacturers were looking to develop their own double-decker buses with NRM features, which would give TfL options when considering future vehicle choices.

List of appendices to this paper:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of background papers:

Report from the TfL Programme Management Office and the management response to that report.

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Board

Date: **5 November 2014**

Item XX: **New Routemasters**

This paper will be considered in private

Subject to the decision of the Board, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL.

Summary

1.26. This paper contains supplementary information to the New Routemasters (NRMs) paper being considered on Part 1 of the agenda.

Financial Implications

ST-PJ366 New Routemasters					
	Existing Financial Authority	EFC	Existing Project Authority	Additional Authority Requested	Total Project Authority
Project	£219.9m	£289.8m	£219.9m	£70.9m	£290.8m
Operation	£4.1m	£13.3m	n/a		
Total	£224m	£304.1m			

1.27. The additional Project Authority requested is £70.9m for the buses. This in an increase to the current project scope, increasing total Project Authority to £290.848m.

1.28. Financial and procurement authority of a further £9.2m is also requested for the associated iBus screens, ticket readers, possible early termination of some existing leases (see paragraph 2.3 below), and provision for a mid-life refurbishment making a total of £80.1m. This takes the total financial and procurement authority from £224m to £304.1m.

1.29. Introducing NRMs on routes mid-contract leads to a cascade of displaced vehicles. Where possible the displaced vehicles are redeployed through contract awards for further use in London, but in other cases due to the age of the vehicles being displaced or the lack of tender opportunities this is not possible. On these occasions there is a cost in terminating vehicle leases mid-contract, or compensating operators for the difference between book value and sale value.

1.30. The additional NRMs will all be to a Euro VI specification and also include a revised rear door arrangement to better facilitate permanent One Person Operation (OPO), an improved wheelchair ramp and improved lower deck ventilation. TfL has negotiated a final unit cost with Wrightbus that is the same

figure of £354,500 a vehicle as the current price despite the improvements mentioned above in vehicle specification.

1.31. £58.1m of the total cost to 2023/24 is provided in the current Business Plan (as below). The remaining £22m is included in the draft 2014 Business Plan. Over the period to 2029/30 the cost of the NRMs is broadly neutral compared to the cost of conventional hybrid buses. A detailed breakdown of the costs and phasing is set out in Appendix 1.

Costs and Funding	Current authority, £k	2014/15	2015/16	2016/17	17/18 - 29/30	Total 14/15 - 23/24	*Total 14/15 - 29/30*	*EFC*
Cost (Out-turn)								
Capital cost purchase of NRMs	(219.9)	(2.5)	(59.2)	(9.2)	0.0	(70.9)	(70.9)	*(290.8)*
Project Authority	(219.9)	(2.5)	(59.2)	(9.2)	0.0	(70.9)	(70.9)	(290.8)
Ticketing and iBus equipment	(4.1)	0.0	(1.6)	0.0	0.0	(1.6)	(1.6)	*(5.7)*
Cost of early termination of some exisitng vehicle lease contracts	n/a	0.0	(2.0)	0.0	0.0	(2.0)	(2.0)	*(2.0)*
Mid Life refurbishment costs for 200 NRMs	n/a	0.0	0.0	0.0	(5.6)	(5.6)	(5.6)	*(5.6)*
Total Procurement and Financial Authority (incl Project Auth)	(224.0)	(2.5)	(62.8)	(9.2)	(5.6)	(80.1)	(80.1)	(304.1)
Other NRM vehicle running costs (£8k per bus pa)	n/a	0.0	(0.8)	(1.6)	(1.7)	(15.5)	(28.0)	n/a
Contract savings for LBSL owning the bus (£30k per bus pa 1st term)	n/a	0.0	3.0	6.2	6.4	39.5	39.5	n/a
Contract savings for LBSL owning the bus (£20k per bus pa 2nd term)	n/a	0.0	0.0	0.0	0.0	12.5	43.7	n/a
Hybrid bus funding already in Plan, deliverable to be met by NRMs	n/a	0.0	2.0	4.1	4.2	21.6	21.6	n/a
Net Savings to Bus Operating Contracts	n/a	0.0	4.2	8.7	8.9	58.1	76.8	n/a
Estimated Final Cost	n/a	(2.5)	(58.6)	(0.6)	3.3	(22.0)	(3.3)	n/a

List of appendices to this paper:

Appendix 1: Detailed breakdown of costs and phasing

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Appendix 1

Appendix - Detailed breakdown of costs and phasing																		
Capital cost purchase of NRMs																		
Project Authority																		
Ticketing and iBus equipment																		
Cost of early termination of some exisitng vehicle lease contracts																		
Mid Life refurbishment costs for 200 NRMs																		
Total Procurement and Financial Authority (incl Project Auth)																		
Other NRM vehicle running costs (£8k per bus pa)																		
Contract savings for LBSL owning the bus (£30k per bus pa 1st term)																		
Contract savings for LBSL owning the bus (£20k per bus pa 2nd term)																		
Hybrid bus funding already in Plan, deliverable to be met by NRMs																		
Net Savings to Bus Operating Contracts																		
Estimated Final Cost																		
																	Total	Total
14/15	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**		**to 29/30**	**to 23/24**
(2.5)	(59.2)	(9.2)															**(70.9)**	**(70.9)**
(2.5)	**(59.2)**	**(9.2)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**(70.9)**	**(70.9)**
	(1.6)																**(1.6)**	**(1.6)**
	(2.0)																**(2.0)**	**(2.0)**
								(5.6)									**(5.6)**	**(5.6)**
(2.5)	**(62.8)**	**(9.2)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**(5.6)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**(80.1)**	**(80.1)**
	(0.8)	(1.6)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(2.0)	(2.0)	(2.1)	(2.2)	(2.2)	(2.3)	(2.4)	(1.2)		**(28.0)**	**(15.5)**
	3.0	6.2	6.4	6.6	6.8	7.0	3.6										**39.5**	**39.5**
							2.4	5.0	5.1	5.3	5.4	5.6	5.8	6.0	3.1		**43.7**	**12.5**
	2.0	4.1	4.2	4.4	4.5	2.3											**21.6**	**21.6**
0.0	**4.2**	**8.7**	**8.9**	**9.2**	**9.5**	**7.5**	**4.1**	**3.0**	**3.1**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**1.9**		**76.8**	**58.1**
(2.5)	**(58.6)**	**(0.6)**	**8.9**	**9.2**	**9.5**	**7.5**	**4.1**	**(2.6)**	**3.1**	**3.2**	**3.3**	**3.4**	**3.5**	**3.6**	**1.9**		**(3.3)**	**(22.0)**

Aappendix 2 MOU

COMMERCIALLY CONFIDENTIAL: TfL RESTRICTED

Subject to Contract

Memorandum of Understanding: New Routemaster

This memorandum records the outcome of a meeting between London Bus Services Limited and Wrightbus Limited on 4th September, 2014 at the premises of Wrightbus Limited and subsequent discussions.

1. London Bus Services Limited (LBSL) has expressed interest in acquiring approximately 200 additional vehicles (the Additional Vehicles) to the design of the "New Bus for London" (NBfL) now known as "New Routemaster" (NRM) amended as outlined in this document through a variation to Contract Number 4600002369 for the Design and Supply and Maintenance of Double Decker Bus vehicles (the Contract), between LBSL and Wrightbus Limited (Wrightbus) and issue of a Purchase Order.
2. A Variation Agreement dated 27 March 2013 and associated Purchase Order were issued providing for the supply of 600 vehicles (the Vehicles).
3. Wrightbus is willing and able to supply 200 Additional Vehicles to the design of the NRM (amended as outlined in this document) through a variation to the Contract and Purchase Order from LBSL.
4. Any variation to the Contract in respect of the Additional Vehicles is subject to discussion and approval though the internal governance arrangements of LBSL and Transport for London which is currently expected to be completed in December 2014; this memorandum is not, therefore, legally binding on either party.
5. It is agreed that certain terms of the Contract need to be amended to take account of changing circumstances and reflect this proposed order.
6. LBSL is also seeking to incorporate a number of changes to the Contract to take account of operational performance and user experience of the Vehicles.
7. Wrightbus is willing and able to incorporate changes to the Contract to take account of operational performance and user experience of the Vehicles
8. This memorandum sets out the principal terms settled to date for the supply of the Vehicles and the Additional Vehicles and identifies the further activities required to enable a formal variation to the Contract and Purchase Order to be issued.
9. LBSL intends to issue a single Variation to the Contract and a Purchase Order(s) that will provide for those items that are settled in this memorandum and for those items that are identified to be settled at a later date as described in this memorandum. The Variation will be issued when all matters have been satisfactorily addressed.
10. The parties agree to act in good faith and diligently pursue all matters to enable completion of a variation to the Contract and Purchase Order in a timely manner.
11. For the avoidance of doubt the terms of the Contract shall apply unless specifically varied in accordance with its terms.
12. Headings used within this memorandum are for convenience only and shall not be used to construe the meaning of any agreement.

COMMERCIALLY CONFIDENTIAL: TfL RESTRICTED

Subject to Contract

Quantity

13. The Purchase Order Quantity will be 200 vehicles subject to adjustment at LBSL's discretion within a band of 195 to 205 to accommodate LBSL's route conversion programme, such change in Purchase Order Quantity will not give either party a right to amend the price per vehicle.

14. A reduction in Quantity will not give Wrightbus the right to payment to reflect compensation for lost contribution to overhead and profit etc, but Wrightbus shall have the right to payment for any unavoidable cancellation fees incurred from suppliers (such liability to have been mitigated to the fullest extent reasonably possible by Wrightbus), and payment for parts that have been purchased but cannot be cancelled, used in production or elsewhere such as in the after market. All costs claimed will be on the basis of full transparency and an "open book" cost exercise by both parties.

15. In addition to its termination rights within the Contract LBSL shall be entitled to reduce the quantity of Additional Vehicles ordered at any time by giving written notice to Wrightbus subject to a minimum of 9 months notice prior to delivery being given.

Specification

16. The Additional Vehicles will incorporate the following specification changes:

17. All Additional Vehicles to be Euro VI compliant

18. A revised specification shall be provided for the battery pack to replace the Valence battery originally fitted to the first 272 vehicles of the 600 vehicle order.

19. Revised requirement for shallower angle to be achieved when the vehicle ramp is deployed to the road surface. This is expected to be a 2 stage ramp designed and manufactured by PSV.

20. Revised rear entry arrangement with fixed glass panel, removal of the "crew button", re-positioned pole and new outward sliding "plug" style door. Final details are to be confirmed but will include a "rapid slide" option at the discretion of LBSL.

21. If requested by LBSL two opening windows will be fitted to the off-side lower deck.

22. Permission for fitting of advertising frames by Wrightbus. Such advertising frames to be provided by third parties at no cost to LBSL.

Price, Payment, and Delivery

23. Wright bus made the following offer in relation to the price of the Additional Vehicles:

24. The price of each Additional Vehicle shall be £349,500 fixed for the full quantity including all specification changes noted above and subject to 26 below.

25. Wrightbus shall not be entitled to any increase in price arising from any cause (including but not limited to changes in material prices, labour rates, financing

COMMERCIALLY CONFIDENTIAL: TfL RESTRICTED

Subject to Contract

costs, obsolescence, technical change or non-availability of materials or parts) except additional agreed changes in specification requested by LBSL by way of a Contract Change Note. In relation to changes in law clause 4.6 in Contract Number 4600002369 shall remain in force.

26. An advance payment of 25% of the contract price for the 200 Additional Vehicles will be made by LBSL. The target for this is by the end of December 2014 subject to final agreement and signature of a variation and submission of appropriate invoices by Wrightbus in sufficient time to allow such payment to be made by LBSL.

27. Security for the advance payment will be on the same basis as that provide for the order of the 600 Vehicles.

28. Recovery of the advance payment will be by adjustment to the invoiced price of the final 100 Vehicles ordered in March 2013, and by reduction in the invoiced price for each of the 200 Additional Vehicles, i.e. at a rate of £58,250 per vehicle. In the event that the number of vehicles is reduced the payment regime shall be amended to enable recovery of all of the advance payment at an even rate such that all of the advance payment is recovered on delivery of the last vehicle.

29. Wrightbus to be responsible or all shipping, insurance and delivery costs to the nominated Production Vehicle Site in London in accordance with clause 15 of the Contract.

30. Payments will therefore be:

    30.1. £17,475,000 as an advanced payment following signature of the Variation to the Contract by Wrightbus and LBSL to be paid 30 days from receipt of a correctly prepared invoice at LBSL.

    30.2. For each of the final 100 Vehicles ordered in March 2013

        30.2.1. £237,000 per Vehicle will be invoiced Ex Works.

        30.2.2. £59,250 per Vehicle will be invoiced following delivery and acceptance ready for service in London.

    30.3. For each of the Additional Vehicles:

        30.3.1. £233,000 per Additional Vehicle will be invoiced Ex Works.

        30.3.2. £58,250 per Vehicle will be invoiced following delivery and acceptance ready for service in London.

31. The Production Programme shall be developed by Wrightbus to achieve final delivery of all vehicles ready for service in London by the end of March 2016. Wrightbus expressly give consent to this Production Programme and delivery arrangements as required by Clause 7.4 of the Contract.

32. The Production Programme once agreed shall supersede the requirements of Clauses 2.1 and 2.2 of Schedule 6 of the Contract. The Production Programme may be updated during the course of production but an update shall not be valid unless and until it has been agreed and authorised by a signed CCN.

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33. From time to time LBSL will issue Instructions for delivery of the Additional Vehicles as required for conversion of routes to operation by the Additional Vehicles. The arrangements for supply of the Additional Vehicles (including Liquidated damages) shall be on the same basis as detailed in the Contract for the supply of the Vehicles, clauses 7A.11, 7A.12, and 7A.13.

34. The provisions of clause 10 of Contract Number 4600002369 shall remain in force and shall not be eligible for change under the variation proposed in this memorandum.

35. Wrightbus shall ensure that at all times it complies with the regulatory requirements for bus certification in the UK. In relation to changes in law clause 4.6 in Contract Number 4600002369 shall remain in force.

36. It is acknowledged that the price per vehicle is fixed without any indexation of price as detailed in this memorandum and therefore the Price Review Board as described in clause 17.13 shall not apply to the Purchase Order for the Additional Vehicles and operation of the Price Review Board will be suspended until further notice.

37. LBSL will review the impact of this proposal (with particular regard to meeting its financial requirements) and provide a response to this offer.

Items discussed and Actions agreed on 4th September, 2014

38. The structure of Wrightbus and roles of individuals has changed. LBSL will consider if this should be reflected in the contract e.g. by naming Wright Group subsidiaries of suppliers for particular components.

39. In connection with current DE mode operation Wrightbus will investigate and propose ways to incentivise better battery performance / life potentially including: retention payments; longer warranties; a common warranty expiration date for all Vaillance batteries; incentive payments; and battery pack leasing options. . LBSL will consider such proposals, noting that such proposals must, as a minimum, meet the contractual requirements as to design and performance and, in considering those proposals, LBSL does not waive any of its rights under the Contract.

40. Additional field staff will be recruited to enhance the service provided by Customer Care and a new hub will be established in Lagoon Road, Orpington

41. Wrightbus will give consideration and liaise with LBSL regarding how the Value Engineering exercise should be conducted (taking account of actions already completed by them); this will include a review of spare part pricing.

42. A CCN for the change of Battery supplier and specification will be submitted by Wrightbus, this is expected to apply from vehicle number 273 for application on route 453.

43. A CCN for a revised Production Programme for the Vehicles will be submitted by Wrightbus.

44. A CCN will be submitted to grant Wrightbus permission to fit advertising frames provided by third parties at no cost to LBSL. The impact of this on the lease between the Operating Company and LBSL will be reviewed by LBSL.

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45. LBSL will raise a PCP to change the specification for the ramp requirement for shallower angle to be achieved when the vehicle ramp is deployed to the road surface.

46. A PCP will be raised by Wrightbus to implement changes to rear door operation from Vehicles to be operated on Route 453 onwards and retrofit if considered appropriate to all previous production vehicles. . This will include introduction of a pressure switch, voice announcement, revised floor markings and potentially a new sticker at eye level on the door.

47. Wrightbus will strengthen the resources available for contract management by appointing a Contract Administrator to assist [redacted].

Signed on behalf of LBSL

[redacted]

Name: M Weston

Date:

Signed on behalf of Wrightbus

[redacted]

Date: